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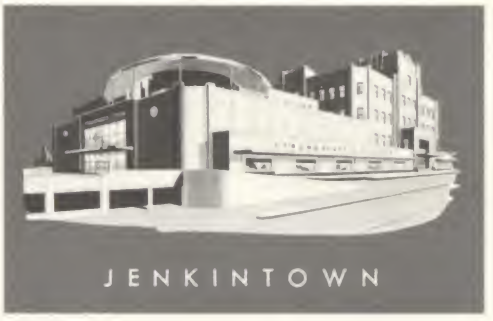
ANNUAL REPORT

FISCAL YEAR 1958

ended January 31, 1959



STRAWBRIDGE & CLOTHIER

STRAWBRIDGE & CLOTHIER

ANNUAL REPORT

FISCAL YEAR 1958

ended January 31, 1959

PHILADELPHIA • ARDMORE • JENKINTOWN • WILMINGTON

BOARD OF DIRECTORS

DWIGHT G. PERKINS, *Chairman*

ROBERT E. STRAWBRIDGE
ISAAC H. CLOTHIER, JR.
FRANCIS R. STRAWBRIDGE
J. CLAYTON STRAWBRIDGE
DONALD C. MILLS
ISAAC H. CLOTHIER, 3rd
FRANCIS R. STRAWBRIDGE, JR.
G. STOCKTON STRAWBRIDGE
ROBERT E. STRAWBRIDGE, JR.
RANDALL E. COPELAND

FRANK R. VEALE

OFFICERS

DWIGHT G. PERKINS	*Chairman of the Board*
G. STOCKTON STRAWBRIDGE	*President*
RANDALL E. COPELAND	*Executive Vice-President*
J. CLAYTON STRAWBRIDGE	*Vice-President and Secretary*
FRANCIS R. STRAWBRIDGE, JR.	*Vice-President and Assistant Secretary*
DONALD C. MILLS	*Vice-President and Treasurer*
FRANK R. VEALE	*Vice-President*
ROBERT E. SASS	*Assistant Treasurer*

TRANSFER AGENTS AND REGISTRARS

GIRARD TRUST CORN EXCHANGE BANK, Philadelphia, Pa.
TRANSFER AGENT *for the $5 Cumulative Preferred Stock and* REGISTRAR *for the Common Stock*

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THE FIRST PENNSYLVANIA BANKING & TRUST COMPANY, Philadelphia, Pa.
TRANSFER AGENT *for the Common Stock and* REGISTRAR *for the $5 Cumulative Preferred Stock*

TO OUR SHAREHOLDERS:

By order of the Board of Directors, this Annual Report for the fiscal year ended January 31, 1959, is submitted herewith. The Report includes a Summary of Income, Statement of Financial Condition, and Statement of Stockholders' Investment certified by Messrs. Ernst & Ernst, our independent public accountants.

EARNINGS AND OPERATIONS

We are pleased to report that the Net Earnings in 1958 were $2,026,516, compared to $1,969,305 in 1957, an increase of 3%. Earnings per share amounted to $2.06 for 1958 compared to $1.98 for 1957. The increased earnings, despite unfavorable business conditions throughout most of the year, can be attributed largely to a program of effective and vigorous expense control.

The Spring of 1958 was a particularly difficult one for the retail business in the Philadelphia area. The effects of the economic recession, the heavy snow storms in February and March, the greatest rain fall in the month of May for many years, one of the coldest Junes on record, together with the thirty-eight day newspaper strike, resulted in a disappointing first half year. These factors were primarily responsible for a slight sales decline in the total year.

It should be noted that the earnings increased despite the impact of substantial expense occasioned by preparation for the construction of our new Service Building. Also, the adjustment of our merchandise inventories to the "LIFO" inventory basis reduced earnings before taxes by approximately $90,000.00.

Comparison of the current year's operating results and the disposition thereof with the previous year follows:

	1958	*1957*	*Increase Decrease**
Income before "Lifo" adjustment and taxes	$4,662,502	$4,414,374	$248,128
"Lifo" adjustment—increase	89,986	25,069	64,917
Income before taxes	4,572,516	4,389,305	183,211
Taxes on Income	2,546,000	2,420,000	126,000
Net Earnings	2,026,516	1,969,305	57,211
Cash Dividends on Preferred Stock	360,237	371,113	10,876*
Cash Dividends on Common Stock	807,018	806,936	82
Earnings retained for use in business	859,261	791,256	68,005

FINANCIAL CONDITION

Our sound financial condition continues to be a source of pride as is evidenced by the following comparisons:

	January 31, 1959	*February 1, 1958*	*Increase Decrease**
Current Assets	$30,403,392	$29,028,046	$1,375,346
Current Liabilities	6,590,846	6,186,667	404,179
Ratio Current Assets to Current Liabilities	4.61 to 1	4.69 to 1	
Working Capital	23,812,546	22,841,379	971,167
Long-Term Indebtedness	4,061,250	4,585,750	524,500*
Preferred Stock	7,159,100	7,341,700	182,600*
Common Stock Equity	30,008,889	29,155,867	853,022
Book Value per Share of Common Stock	37.18	36.12	1.06

Working capital reached an all time high at the end of the year. In compliance with the terms of our long-term loan agreement with the Philadelphia National Bank and the Penn Mutual Life Insurance Company, the principal amount was reduced by $500,000.00.

Regular quarterly dividends of $1.25 were paid on the $5 Cumulative Preferred Stock. The required sinking fund provision on $5 Cumulative Preferred Stock was fulfilled. Quarterly dividends of 25 cents were paid on the Common Stock.

IMPROVEMENTS

It was reported last year that a modern Service Building on Filbert Street was planned. Demolition of the old building has been completed, new construction has commenced, and it is expected that the new facility which should effect significant operating savings, will be completed by spring 1960.

It is worthy of note that we have received from the City Government a commendation expressing its gratification for our confidence in the long range potentialities of down-town Philadelphia manifest in this undertaking.

LOOKING AHEAD

Although it is difficult indeed to forecast accurately the business climate for an entire year, the outlook for 1959 appears to be favorable. For the first half of the year we have planned a modest increase in sales volume over last year and present indications are that we should enjoy a satisfactory Fall Season as well.

In previous reports we have referred to the Cherry Hill Shopping Center. Subsequent to the last annual meeting we obtained an option to purchase the Cherry Hill site and are negotiating with an experienced shopping center developer to build and operate the Center. It is our intention to finance and build our own store and to this end plans are now going forward.

As noted in previous reports, we are continuing to survey our Philadelphia trading area for additional Branch Store opportunities.

OFFICER CHANGES

Effective April 30th 1958, Isaac H. Clothier 3rd retired and resigned as a Vice President of the Company. He was active in the business for more than thirty-one years and will continue as a Director.

On April 23rd 1958, Randall E. Copeland was elected Executive Vice President of our Company, retaining responsibility for the supervision of our Merchandise and Publicity divisions. At the same time Frank R. Veale, formerly Sales Promotion Manager, was elected a Vice President of the Company and assumed responsibility for the Personnel and Operating divisions.

IN MEMORIAM

On December 21, 1958 we suffered the loss of our esteemed Senior Director, Frederic H. Strawbridge. At its meeting on January 21, 1959, the Board of Directors passed a Resolution which reads in part as follows:

> "His accomplishments in many fields, his sound and practical judgment, his strict adherence to the principles of right living, his loyalty to and interest in Strawbridge & Clothier, all have served to inspire those who were privileged to know and be associated with him. His influence and the memory of his exemplary life will long endure."

We shall miss him greatly.

IN APPRECIATION

We are extremely proud of our store family. Their loyalty, interest and continuing support are responsible in a large measure for a successful year. The Board of Directors joins me in expressing sincere appreciation.

Respectfully

J. Stockton Strawbridge

President.

April 9, 1959.

ERNST & ERNST
PHILADELPHIA

To the Shareholders of
Strawbridge & Clothier

We have examined the statement of financial condition of Strawbridge & Clothier as of January 31, 1959, and the related summary of income, and statement of stockholders' investment for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination and report for the year ended February 1, 1958.

In our opinion, the accompanying statement of financial condition and related summary of income and statement of stockholders' investment present fairly the financial position of Strawbridge & Clothier at January 31, 1959, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Certified Public Accountants

Philadelphia, Pa.
March 25, 1959

To the Shareholders

The financial statements contained in this report are correct to the best of my knowledge and belief.

Donald C. Mills
Vice-President and Treasurer
Strawbridge & Clothier

April 9th, 1959

SUMMARY OF INCOME

	Year Ended	
	January 31, 1959	*February 1, 1958*
Income before "Lifo" inventory adjustment and before deducting interest, depreciation, and provision for income taxes	$ 5,929,730	$ 5,736,900
Deduct:		
"Lifo" inventory adjustment	89,986	25,069
Interest	267,057	310,726
Depreciation and amortization	1,000,171	1,011,800
	$ 1,357,214	$ 1,347,595
INCOME BEFORE TAXES ON INCOME	$ 4,572,516	$ 4,389,305
Taxes on income—estimated:		
Provision for taxes currently payable:		
Federal income tax	2,143,000	1,810,000
State income tax	244,000	192,000
Provision for future income taxes (principally on installment sale gross profits)	159,000	418,000
	$ 2,546,000	$ 2,420,000
NET EARNINGS	$ 2,026,516	$ 1,969,305

See Notes to Financial Statements

ASSETS

	January 31, 1959	*February 1, 1958*
CURRENT ASSETS		
Cash	$ 2,097,598	$ 2,559,497
Accounts receivable:		
Customers:		
Charge accounts	9,094,373	9,377,462
Installment accounts	10,293,279	8,786,712
Suppliers	406,631	359,682
	$19,794,283	$18,523,856
Less allowance for loss	425,000	425,000
	$19,369,283	$18,098,856
Merchandise inventories (Note A)	8,936,511	8,369,693
TOTAL CURRENT ASSETS	$30,403,392	$29,028,046
OTHER ASSETS		
Cash on deposit with trustee for redemption of $5.00 Cumulative Preferred Stock (Note B)	191,235	191,212
Miscellaneous accounts receivable and advances	24,151	48,059
Sundry investments—at cost	224,991	224,991
	$ 440,377	$ 464,262
Less allowance for loss	25,000	25,000
	$ 415,377	$ 439,262
PROPERTY, FIXTURES, AND EQUIPMENT—at cost		
Land, buildings, and equipment	34,254,829	33,969,002
Less allowance for depreciation	15,689,127	14,691,802
	$18,565,702	$19,277,200
Construction in progress (Note D)	217,659	–0–
	$18,783,361	$19,277,200
DEFERRED CHARGES		
Prepaid expenses	476,708	518,731
Supply inventories	228,079	288,185
	$ 704,787	$ 806,916
	$50,306,917	$49,551,424

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	January 31, 1959	*February 1, 1958*
CURRENT LIABILITIES		
Term note installments maturing within one year	$ 524,500	$ 524,500
Accounts payable	2,877,891	2,521,064
Accrued accounts	692,100	747,914
Pay roll taxes and taxes withheld from employees	248,984	272,679
Federal, state, and local taxes—estimated	2,016,322	2,096,121
Deposits on U. S. Savings Bond subscriptions	29,280	24,389
Dividends payable	201,769	–0–
TOTAL CURRENT LIABILITIES	$ 6,590,846	$ 6,186,667
TERM NOTES PAYABLE—Portion due after one year (Note C)	4,061,250	4,585,750
RESERVES		
For future income taxes (principally on installment sale gross profits)	2,155,662	2,006,440
For deferred compensation and contingencies	331,170	275,000
	$ 2,486,832	$ 2,281,440
TOTAL LIABILITIES	$13,138,928	$13,053,857
STOCKHOLDERS' INVESTMENT		
Capital stock:		
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—at January 31, 1959, authorized 79,891 shares; outstanding 71,591 shares, after deducting 1,799 shares in treasury (outstanding at February 1, 1958, 73,417 shares) (Note B)	7,159,100	7,341,700
Common Stock, par value $5.00 per share—authorized 1,000,000 shares; outstanding 807,099 shares	4,035,495	4,035,495
Capital in addition to par value of shares	4,808,276	4,814,515
Earnings retained for use in the business	21,165,118	20,305,857
TOTAL STOCKHOLDERS' INVESTMENT	$37,167,989	$36,497,567
	$50,306,917	$49,551,424
COMMITMENTS—(Note D)		

See Notes to Financial Statements

STATEMENT OF STOCKHOLDERS' INVESTMENT

	Year Ended	
	January 31, 1959	*February 1, 1958*
CAPITAL STOCK		
Preferred Stock:		
Balance at beginning of year	$ 7,341,700	$ 7,601,700
Less shares acquired during year	182,600	260,000
	$ 7,159,100	$ 7,341,700
Common Stock:		
Balance at beginning of year	4,035,495	3,843,330
Stock dividend	–0–	192,165
	$ 4,035,495	$ 4,035,495
CAPITAL IN ADDITION TO PAR VALUE OF SHARES		
Balance at beginning of year	4,814,515	4,158,131
Add:		
Excess of amount charged against earnings retained for use in the business over the par value of Common Stock issued as stock dividend	–0–	653,361
Difference between par value and amount paid on acquisition of $5.00 Cumulative Preferred Stock for treasury (deduction)	(6,239)	3,023
	$ 4,808,276	$ 4,814,515
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	20,305,857	20,360,127
Add net earnings for the year	2,026,516	1,969,305
	$22,332,373	$22,329,432
Deduct:		
Cash dividends on Preferred Stock ($5.00 per share)	360,237	371,113
Cash dividends on Common Stock ($1.00 per share)	807,018	806,936
Stock dividend (5%) declared February 20, 1957	–0–	845,526
	$ 1,167,255	$ 2,023,575
EARNINGS RETAINED FOR USE IN THE BUSINESS	$21,165,118	$20,305,857
TOTAL STOCKHOLDERS' INVESTMENT	$37,167,989	$36,497,567

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note A

Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in aggregate amounts for inventories at January 31, 1959, and February 1, 1958, of approximately $2,303,000 and $2,213,000, respectively, less than the amounts which would have been determined under the retail inventory method without regard to last-in, first-out principles.

Note B

Sinking fund provisions of the $5.00 Cumulative Preferred Stock require that on April 1st of each year the Company shall redeem shares of such class of stock in an amount of par value equal to two per cent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions, 1,826 shares of the $5.00 Cumulative Preferred Stock were retired on April 1, 1958.

Dividends on the $5.00 Cumulative Preferred Stock have been paid to January 2, 1959, a dividend date.

Note C

The portion of term notes due after one year (amounts due within one year are included in current liabilities) consists of $61,250 payable to a bank in ten quarterly installments of $6,125 each, commencing March 1, 1960, and $4,000,000 payable to an insurance company in semi-annual installments, commencing June 1, 1960, over a period of ten years. The loan agreement relating to the latter provides, among other things, that while the loan remains unpaid the Company will maintain minimum working capital of $10,000,000, and that the aggregate after January 31, 1953, of payments of dividends (other than dividends paid in capital stock of the Company) and purchases of capital stock will not exceed the sum of $4,000,000 plus the amount of earnings accumulated after January 31, 1953. The amount available for such purposes at January 31, 1959, was $9,019,674.

Note D

Long-term leases: At January 31, 1959, the Company was lessee under four leases on store properties with terms, if renewal options are exercised, of not less than twenty years from the above date in each case. The annual rentals under these leases are conditional upon sales and the present aggregate minimum rentals under the leases are $357,000 per annum.

Under an agreement with an insurance company, the latter will purchase at approximately the cost to the Company, a new service building now being constructed, together with an adjacent building now owned by the Company, which is being altered and which will be connected to the new building. The entire property so conveyed will be leased from the insurance company for a period of twenty-five years (with options to renew at reduced rental or to purchase at the end of such term), at a fixed annual rental of $181,250, plus real estate taxes, insurance, and similar charges.

THIS IS THE FAMOUS

SEAL OF CONFIDENCE

. . . your constant assurance that today, as in 1868, the high principles of storekeeping established by Justus C. Strawbridge and Isaac H. Clothier govern the conduct of our business. Whenever your purchase depends on Confidence, depend on

STRAWBRIDGE & CLOTHIER